Mortgage Broker vs. Loan Officer

When you're looking to get a mortgage loan, you may work with a loan officer or you may choose to work with a mortgage broker. People often confuse the two job types even though both will glean the same results: a new home. However, it is important to understand the difference between the two types of jobs so you know what to expect from them during the mortgage application process.

A mortgage broker is an individual or firm that acts as an independent agent for both the borrower and the lender of a mortgage loan.

Mortgage brokers are the middle man between you and the lending institution, which can be a bank, trust company, credit union, mortgage corporation, finance company or even an individual private investor. A mortgage broker will analyze your financial situation to determine which lender is the best fit for your loan needs. He or she will submit your mortgage application to one or more lenders in order to sell it, and works with the chosen lender until the loan closes. He or she receives a commission from the borrower if the loan closes.

A loan officer is a representative of a lending institution, such as a bank, who works to sell and process mortgages and other loans originated by their employer. They often have a wide variety of loans types to draw from, but all originate from that specific lender.

Also known as a loan representative or account executive, loan officers represent the borrower to the lending institution and will guide him or her through the selection, processing and closing of mortgage loan. Loan officers can be paid a commission or salary for their services.

Verifying Your Down Payment, Closing Costs, Assets, Income and Debts

A critical step in the mortgage loan application process is to verify the sources for your down payment, closing costs and assets, as well as documenting income and debts. The lender uses this step to determine your qualifications as a borrower.

Down Payment & Closing Costs

Documenting that the down payment comes from your savings and that you will have savings and/or assets over and above the down payment gives the lender confidence in your strength as a borrower and your ability to repay the loan.

Take extra care to document the sources for any monies to be used for the down payment or closing costs.

Acceptable Down Payment & Closing Costs Sources

- Cash in a bank account

- Mutual funds / stocks / IRA / 401(K)
- Proceeds from the sale of another property
- Gift from an immediate relative

Assets

Collect information about your personal assets that add to your net worth and help to prove your credit worthiness.

Common Assets Considered in a Mortgage Loan Application

- Stocks, bonds, mutual funds, 401(K) and retirement accounts
- Life insurance
- Personal property estimate - cars, boats, antiques, jewelry, etc.
- Other real estate or property

Income and Employment

The lender will want to confirm your current gross income and have evidence of stable employment. Documentation requirements vary depending upon a number of factors - including the source of income (hourly, salary, salary + bonuses, salary + commission, commission, self-employed, etc.).

Debts

Your lender will want to review a list of all your current debts. This along with your credit report will provide the lender with a snapshot of your obligations. The lender will want to confirm that you will not be overextended when the mortgage payment is added to your current debt load.

What is a credit score?

Before deciding on what terms they will offer you a loan (which they base on their "risk"), lenders want to know two things about you: your ability to pay back the loan, and your willingness to pay back the loan. For the first, they look at your income-to-debt obligation ratio. For your willingness to pay back the loan, they consult your credit score.

The most widely used credit scores are FICO scores, which were developed by Fair Isaac & Company, Inc. (and they're named after their inventor!). Your FICO score is between 350 (high risk) and 850 (low risk).

Credit scores only consider the information contained in your credit profile. They do not consider your income, savings, down payment amount, or demographic factors like gender, race, nationality or marital status. In fact, the fact they don't consider demographic factors is why they were invented in the first place. "Profiling" was as dirty a word when FICO scores were invented as it is now. Credit scoring was developed as a way to consider only what was relevant to somebody's willingness to repay a loan.

Past delinquencies, derogatory payment behavior, current debt level, length of credit history, types of credit and number of inquiries are all considered in credit scores. Your score considers both positive and negative information in your credit report. Late payments will lower your score, but establishing or reestablishing a good track record of making payments on time will raise your score.

Different portions of your credit history are given different weights. Thirty-five percent of your FICO score is based on your specific payment history. Thirty percent is your current level of indebtedness. Fifteen percent each is the time your open credit has been in use (ten year old accounts are good, six month old ones aren't as good) and types of credit available to you (installment loans such as student loans, car loans, etc. versus revolving and debit accounts like credit cards). Finally, five percent is pursuit of new credit -- credit scores requested.

Your credit report must contain at least one account which has been open for six months or more, and at least one account that has been updated in the past six months for you to get a credit score. This ensures that there is enough information in your report to generate an accurate score. If you do not meet the minimum criteria for getting a score, you may need to establish a credit history prior to applying for a mortgage.

Why you should get an Inspection

Whether you are buying or selling a home, you should have a professional home inspection performed.

A home inspection will look at the systems that make up the building such as:

- Structural elements, foundation, framing etc
- Plumbing systems
- Roofing
- Electrical systems
- Cosmetic condition, paint, siding etc

If you are buying a home, you need to know exactly what you are getting. A home inspection, performed by a professional home inspector, will reveal any hidden problems with the home so that they may be addressed BEFORE the deal is closed. You should require an inspection at the time you make a formal offer. Make sure the contract has an inspection contingency. Then, hire your own inspector and pay close attention to the inspection report. If you aren't comfortable with what he finds, you should kill the deal.

Likewise, if you are selling a home, you want to know about such potential hidden problems before your house goes on the market. Almost all contracts include the condition that the contract is contingent upon completion of a satisfactory inspection. And most buyer's are going to insist that the inspection be a professional home inspection, usually by an inspector they hire. If the buyer's inspector finds a problem, it can cause the buyer to get cold feet and the deal can often fall through. At best, surprise problems uncovered by the buyer's inspector will cause delays in closing, and usually you will have to pay for repairs at the last minute, or take a lower price on your home.

It's better to pay for your own inspection before putting your home on the market. Find out about any hidden problems and correct them in advance. Otherwise, you can count on the buyer's inspector finding them, at the worst possible time.

Debt to Income Ratio

Lenders use a ratio called "debt to income" to determine your maximum monthly payment after you have paid your other recurring debts.

How to figure your qualifying ratio

In general, conventional loans require a qualifying ratio of **28/36**. An FHA loan will usually allow for a higher debt load, reflected in a higher **(29/41)** qualifying ratio.

The **first number** in a qualifying ratio is the maximum percentage of gross monthly income that can go to housing costs (including loan principal and interest, private mortgage insurance, homeowner's insurance, property tax, and HOA dues).

The second number is what percent of your gross income every month that can be applied to housing costs and recurring debt. For purposes of this ratio, debt includes payments on credit cards, auto payments, child support, and the like.

Examples:
28/36 (Conventional)

- Gross monthly income of $2,700 x .28 = $756 can be applied to housing
- Gross monthly income of $2,700 x .36 = $972 can be applied to recurring debt plus housing expenses

With a 29/41 (FHA) qualifying ratio

- Gross monthly income of $2,700 x .29 = $783 can be applied to housing
- Gross monthly income of $2,700 x .41 = $1,107 can be applied to recurring debt plus housing expenses

If you'd like to run your own numbers, feel free to use our Mortgage Loan Qualification Calculator.

Just Guidelines
Remember these are just guidelines. We'd be happy to go over pre-qualification to help you determine how much you can afford.

Differences between fixed and adjustable loans

A **fixed-rate** loan features a fixed payment amount for the entire duration of your loan. Your property taxes may go up (or rarely, down), and your insurance rates might vary as well. But generally monthly payments on a fixed-rate mortgage will be very stable.

When you first take out a fixed-rate loan, most of the payment is applied to interest. As you pay on the loan, more of your payment is applied to principal.

You can choose a fixed-rate loan in order to lock in a low interest rate. Borrowers select these types of loans when interest rates are low and they want to lock in this low rate. For homeowners who have an ARM now, refinancing into a fixed-rate loan can offer more stability in monthly payments. If you have an Adjustable Rate Mortgage (ARM) now, we'd love to assist you in locking a fixed-rate at a favorable rate. Call Pro Mortgages, LLC at 859-296-4495 to discuss your situation with one of our professionals.

There are many different kinds of **Adjustable Rate Mortgages**. Generally, interest for ARMs are based on an outside index. A few of these are: the 6-month CD rate, the one-year Treasury Security rate, the Federal Home Loan Bank's 11th District Cost of Funds Index (COFI), or others.

The majority of ARMs feature this cap, which means they won't increase above a specified amount in a given period of time. Some ARMs won't adjust more than 2% per year, regardless of the underlying interest rate. Sometimes an ARM features a "payment cap" that guarantees your payment won't increase beyond a fixed amount over the course of a given year. In addition, almost all ARMs feature a "lifetime cap" — the rate will never exceed the capped amount.

ARMs most often have the lowest, most attractive rates toward the beginning. They provide that rate for an initial period that varies greatly. You may hear people talking about "3/1 ARMs" or "5/1 ARMs". For these loans, the initial rate is set for three or five years. It then adjusts every year. These kinds of loans are fixed for 3 or 5 years, then adjust. Loans like this are best for people who anticipate moving in three or five years. These types of ARMs are best for borrowers who will move before the loan adjusts.

You might choose an Adjustable Rate Mortgage to get a lower initial rate and plan on moving, refinancing or absorbing the higher rate after the introductory rate goes up. ARMs can be risky when property values go down and borrowers are unable to sell or refinance their loan.

Why might you need an appraisal? How do appraisals work?

In many cases, lenders need a professional, independent appraisal of the property you want to buy or refinance to ensure that it is worth at least as much as they are being asked to lend on it. If you are making a smaller down payment and have a lower credit score, the lender is going to be even more interested in making sure the property that will be collateral for the loan is worth lending the amount requested.

A professional, independent appraiser will usually visit your home and inspect its interior and exterior. The appraiser doesn't want to buy your home, and isn't a visiting head of state. So whatever you do, do not postpone the appraisal until you get a chance to "clean up a little." Cleaning does not make your appraised value higher! And delaying adds time to an already lengthy process.

The appraiser will form an opinion on the probable market value of the property considering sales of similar homes in the area among other factors. He or she will prepare an appraisal report explaining the conclusion. The appraisal belongs to the lender considering lending money with the home as collateral. Often, you can receive a copy of the appraisal either as a courtesy or in keeping with state law. Let us know you're interested and we'll help.

The lender wants to know first of all whether the property is worth at least as much as the loan amount. In the unlikely event the lender would have to foreclose, it wants to know it should be able to recoup at least the loan amount. But if your loan program depends on you borrowing, for example, 95 percent of the property's value and no more, the appraisal can impact your eligibility for the loan that's right for you. In a "close" case like that, the best solution is almost always to increase your down payment, or we can help find another solution such as another loan program that works.

An appraisal can cost from $200 to $500 or more for very complex properties. You as the borrower repay the lender for its cost in paying the appraisal fee upon settlement of the loan.

Private Mortgage Insurance helps you get the loan
Private Mortgage Insurance, also known as PMI, is a supplemental insurance policy you may be required to obtain in order to get a mortgage loan. PMI is provided by private (non-government) companies and is usually required when your loan-to-value ratio — the amount of your mortgage loan divided by the value of your home — is greater than 80 percent.

PMI isn't a bad thing — it allows you to make a lower down payment and still qualify for a mortgage loan. In fact without PMI, many of us would not be able to purchase our first home.

How is PMI calculated?
Your PMI premium is fixed based on plan type (loan-to-value ratio, loan type, loan term, etc.) and is not related to your particular credit history or other individual characteristics. PMI typically amounts to about one-half of one percent of your mortgage amount annually, according to the Mortgage Bankers Association, and the premium payment is usually rolled into your monthly mortgage payment. On a $200,000 mortgage, you may be paying $1,000 per year for PMI.

Mortgage vs. Deed of Trust
Many of us incorrectly call our home loan a mortgage, but in fact, a mortgage is not what your lender gives you to buy a home. A mortgage is actually the formal document proving the legal claim or lien on a piece of property that you give to the lender who holds it as security for the money you borrowed. The lien is recorded in public records. On a mortgage, you pledge the property as security for the repayment of your loan, but you do not transfer title to the lender.

If you (the mortgagee) repay your loan in accordance with the terms of the mortgage, it is canceled or satisfied by the lender (the mortgagor). However, if you do not repay your debt, the lender has the right to sell the secured property to recover funds through a court proceeding called foreclosure.

In some states, a deed of trust is used in place of a mortgage. While a mortgage involves two people (the borrower and the lender) a deed of trust involves three people - the borrower (or trustor), the lender (the beneficiary) and a trustee, a neutral third party, such as an attorney or a title agent. The deed of trust is also recorded in public records.

In a deed of trust transaction, the borrower transfers the legal title for the property to the trustee who holds the property in trust as security for the payment of the loan to the lender. The deed of trust is cancelled when the debt is paid. However, if you default on your payment of the loan, the trustee may sell the property at the request of the lender without a court proceeding.